

**THE ULTIMATE GUIDE**

# Short Selling Penny Stocks

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**PennyStockster.com**



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### Chapter 1 – Introduction

If this was your average E book you would have paid a ridiculous sum of \$\$ just to read a worthless account of how “Joe” turned \$1,000 into \$1,000,000 and how you can too! Then, “Joe” would go into how this book only scratches the surface and that to get the full benefit you need to get my other course now for just \$999! To top it “Joe” would try to sell you some more products or try to get you to sign up for his stock picking service that guarantees 1000% returns!

You won't find any selling or one time offers in this E book because this is not a get rich quick from trading stocks E book. It's simply an E book that feeds you techniques, tips, and advice you need to know in order to profit from short selling penny stocks. It's up to YOU to use this to your advantage.

I don't make money by selling PDF files. I just make money trading penny stocks. More importantly I want you to make money trading penny stocks. I don't want to be a get rich quick stock guru nor do I want to be connected with them. While I could sell this E book and make money off of it, I'm instead using it as part a promotional tool for my newly launched penny stocking blog, PennyStocker.com.

I encourage you to share this E book! You can make free copies of it and send it to any family, friends, co-workers, or anyone else that would benefit from the advice given in this E book!

If you have a website, blog, or forum feel free to feature this E book to your visitors! It can be a great addition to any stock market blog out there! Just make sure not to alter the content in any way.

What you are about to read is the result of experience and research in the penny stock niche. This is a compilation of advice, tips, and techniques that have turned me into a successful young pennystocker.

It's my goal with **The Ultimate Guide: Short Selling Penny Stocks** to open the eyes of every trader to the lucrative niche of short selling penny stocks.

Here's to your trading success,

Justin Bostwick



## **Chapter 2 – Make Money When Penny Stocks Go Down**

It's the common assumption that you can make money when penny stocks go up. But you downloaded this E book to wonder how you can make money when penny stocks go down, right?

For some reason there's this perception that you can't short micro-cap/penny stock companies. I'm sure some of you reading this now are still doubting you can't short stocks under 5 dollars. I'm here to clear the haze that surrounds this particular question: Yes you can short 'em!

All it takes is the right brokerage and certain techniques that I will teach in the following pages.

### **What Is Shorting?**

For those of you who don't know exactly what shorting is or those who just need a refreshing, read on! To those of you that already know what shorting is, go ahead and skip this section.

Shorting is the exact opposite of buying. You short a stock in an anticipation of a decrease in share price. When you short a stock, your brokerage will lend you shares that you don't own that come from that brokerages own inventory. When shorting you are borrowing shares in a stock from your brokerage. When the stocks price goes down and you want to close out your short and take in your profits you have to buy back the same number of shares, this is called covering your short.

Some get confused about the buying back part, I know I did, so let me clarify. When you buyback those shares you aren't actually going to have an actual position in this stock anymore. You're buying back shares of stock you didn't own, so when you buy back the shares you shorted it cancels out the shares you buy.

When shorting you're account has to be a margin account in order to borrow shares to short. Margin account is more risky than a cash account but it does come with a great perk. You're able to day trade 3 times on a 5 business rolling period. This is essential if you need to exit quickly to avoid losses, or reap profits. What is great about this rule is that the small account traders can day trade even without the \$25,000 minimum you keep hearing about. Is that great or what?

### **Taking Advantage of Pumps and Dumps**

One thing you have to understand is that these penny stocks are penny stocks for a reason! When I say penny stocks I'm classifying stocks that are trading under 5 dollars. Most of these companies are outright scams! They're carrying tons of debt and haven't made a single profit as a company. What these companies do is pay stock promoters to promote their stock via faxes, newsletters, etc.

Ever gotten one of those emails or faxes that say "Buy symbol: XXXX now for a quick 100% gain, guaranteed! Then they go into why with excuses like: "This company is going to announce a 500% revenue increase!" or "I just talked to CEO, huge plans coming, buy buy buy!"

Another way companies induce hype into a company is too release what many call "fluff" news. This type of news is just a PR that the company releases that is suppose to stimulate dramatic hype into a company and make them look good all while the news may not be newsworthy at all. There's an example of a fluff news release on the next page.

**Press Release** Source: MyECheck Inc.

## MyECheck Inc. Patented Software Goes Live With Mentor Public Schools

Tuesday July 15, 2008 9:30 am ET

### Check 21 Processor Implements in Ohio School District

SACRAMENTO, CA--(MARKET WIRE)--Jul 15, 2008 -- MyECheck Inc. (OTC BB:MYEC.OB - [News](#)), an electronic transaction processor and provider of alternative payment solutions, announced that its software has gone live at Mentor Public Schools, an Ohio School District.

MyECheck previously announced that an agreement had been signed and managed to implement its software within about 5 days of the signing. This quick turn-around is attributed to the streamlined integration process that MyECheck has now built for its clients utilizing easy application programming interfaces (APIs).

Ed Stars, CEO of MyECheck, commented, "Our APIs have evolved with the changing needs of our clients to the point where we can have a customer 'live' within a week of bank interface approval. We will continue to streamline this process and work with both our internal team and outside VARs to ensure that we provide a cutting-edge technology in this growing industry."

Mentor Public Schools is a School District in Mentor, Lake County, Ohio with 14 schools, including elementary, middle and high schools. MyECheck's eCheck solution now provides parents with the option of debiting their checking accounts for payments such as loading their children's lunch cards safely as an example.

About MyECheck

MyECheck Inc. is a leading electronic transaction processor and provider of alternative payment solutions to credit cards for brick & mortar, internet, and intranet commerce. MyECheck utilizes a proprietary method of creating and clearing remotely created checks (RCCs) for exceedingly fast, secure and convenient payments. As the leader in Check 21 solutions and check image processing for online merchants, MyECheck's patented RCC solution provides merchants with financial access to more consumers than any other single payment method.

Please visit [www.myecheck.com](http://www.myecheck.com)

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So is this newsworthy? The answer is no, it's just a press release from the company to build up hype.

When these kinds of manipulation happen to a certain stock it's called a pump and dump. You can either take advantage of the pump or you can take advantage of the dump. This is where shorting selling comes in. It's much more easier to pattern the dump of these stocks than it is the pump. What we want to do is catch the top, and ride the stock back down after the company executives, and promoters sell all there shares after they pump it up for a few days and/or weeks. The scammers reap the illegal profits going up, and we reap the LEGAL, not to mention easy, profits on the way down. Don't you just love how this works?

In the next section I'll explain the beginnings of how I find the tops of these stocks just before they dump to maximize short selling profits!

## Charting Your Way to Success

There are several methods to finding the very tip top of these pump and dumpers, but through experience I've discovered that nothing is better than using plain candlestick charts. Candlestick charts show price movements through "candlesticks." These charts are very simple yet very effective in showing us when a stock is likely to fall. With candlestick charts there are different periods to which you can set them up to show 2 year, 1 year, 6 months, 1 day, 30 min, 1 min, etc. What I find that works the best with short selling is the 6 month setup, along with a 5 min setup. I will first chart a specific stock using a 6 month chart. If it looks like a good short I will then chart it using a 5 min chart to see if it's losing steam and to find specific price levels that indicate support and resistance. If you see a stock you want to short, it is essential to use the 5 min to pin-point the entry price. Here's a example of my chart setups(and the beginning of a classic pump and dump):



6 Month Chart



5 Min Chart

As you can tell my chart setup is relatively simple yet effective. You don't see any of those confusing technical indicators like the RSI, MACD, or Stochastic that all those “professionals” preach about. All that does is confuse the trader and adds more noise than you need to the chart; it goes to say less is more. With short selling all you need is volume displayed on your chart and a trained eye to look for these short selling pump and dump patterns.

Patterns that I will discuss in the next chapter.

### Chapter 3 – The Fabulous Four

By now you know that I find the tops of pumps and dumps using charts, but I'm sure you're wondering what exactly do I look for in these charts that signal the top? There are 4 patterns that I look for when shorting hyped up penny stocks. Ingrain these patterns into your head for this is what short selling penny stocks is all about!

#### The Pump

This pattern is just what I call your typical pumped penny stock. There's nothing else to this pattern other than it's defined by when a penny stock rockets for 50%–600% in a matter of a single or multiple days based off of hyped promotion and/or fluff news. Below are 2 examples of The Pump...

## Short Selling With PennyStocker.com



As you can see both of these exhibited huge gains of of “fluff” news. Both of these runs have reached the top as you can see from the big red candles on each chart. When this happens they’re in free fall mode and you can reap the easy profits! Now I bet you’re wondering, just how would you have made your entry and exit points in these stocks to profit on these dumps? Read on...



## Short Selling With PennyStocker.com

As I said before, I use 6 month charts, like the ones above to get an overview of a certain penny stocks' price movement. When I see that it would make a good short I then open up a 5 -min chart of the selected stock to see where I want to enter my short. Here's what I did with the 2 penny stocks above.

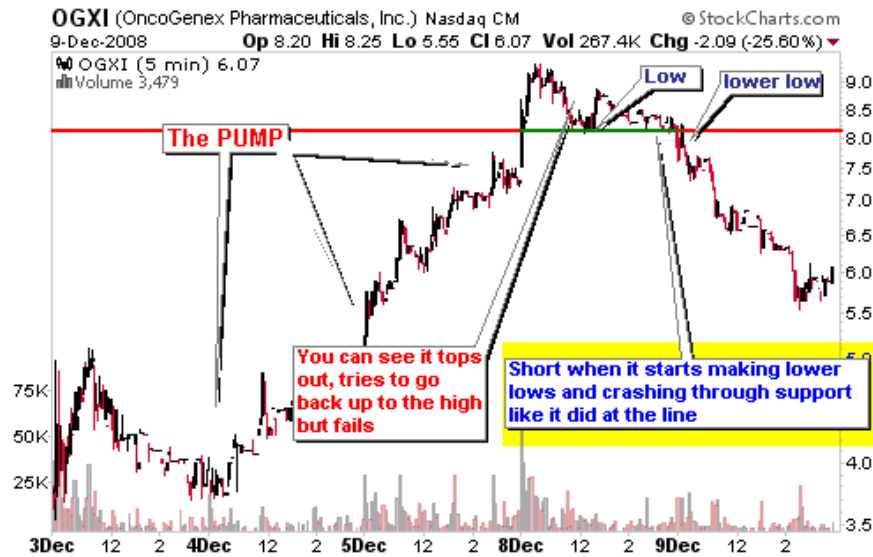
First here's the 5 min chart of HZO.



You can see from above that the 2.55 support line was key and when it finally bursts that it was a free fall. An easy 25%+ percent before lunch! Sure you could have shorted it at the very tip top, but it's safer to wait until key support is broken, like it was on 2.55.

Go to the next page to see how I would've shorted OGI...

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OGXI is a classic example of a penny stock soaring over 100% in 3 days then giving almost all of its gains up in 1 trading session. As you can see on this 5-min chart support for this stock was at 8.00, but as soon as it busted through that level it was just panic selling from there, something all short PennyStockers love!

### Green to Red

This is another amazing strategy for shorting penny stocks. It was a strategy that was introduced by Muddy from [DarkSideTrading](#). This strategy is different from The Pump, in that this strategy is looking for stocks that show some strength on an intra-day level rather than a multi-day level therefore we're solely using a 5-min chart for this strategy. We're looking for penny stocks that increase 7% or more in the first few minutes or hours of a trading day, then on the same day go red i.e. give up those gains and go into negative on the day. What you want to do is short when the stock goes at least below -3% on the day. Sure you could short the second it goes red, but this just gives us a little more confirmation of the trend. Lets look at some examples..



## Short Selling With PennyStocker.com



Both CHUX and EGO exhibit the pattern of green to red. With this pattern, you don't have to pay much attention to support lines. Entry of a short with this strategy is solely based on price action of green to red unlike "The Pumps" pattern, where you are looking for the price to bust a key support level. Green to Red is a very simple pattern that is very reliable at the same time. Remember how I said short selling was simple? Well, it is! Anyone can do it!

### The Last Minute Spike

This strategy is just what the title suggests, a last minute spike that happens when buyers shoot the price of a stock up 40%+ the last 5-10 minutes of the trading day for no reason (i.e. No news). The buying frenzy normally doesn't follow over to the next morning so the stock falls sharply. Perfect for the short seller! You short these suckers right when the market opens and this is normally what happens...



When shorting these, don't get scared away when the stock opens already down -10%. It's normal for this to happen on these kinds of spikes. There's more to lose!

### Gap Fading

This is a shorting strategy that has been used for many many years by traders on mid to large cap stocks and I'm here to tell you it works on penny stocks too! This is again a pattern used on an intraday basis much like the "Green to Red" and the "Last Minute Spike." What you want to look for is penny stocks that have gapped up at the open for above 7% and at some point at the day go below what the stock opened at. When the price goes below what the stock opened at it tends to fade down to the previous day's close, hints the term "fading" the gap. All you want to do is short when you see the current price busting below the open price, but of course it's always better to wait for confirmation of the trend. That is your queue to enter your short position. Here are some examples of what I'm talking about



As you can see SBLK made an almost perfect fade back to the previous days close. I do want to point out that obviously these stocks gap up because of news. Be careful when shorting these big gap ups because a lot of times the news is very fundamental news for the company (I.e: earnings, takeover bid, etc.) In fact if the news isn't fluff then I really don't bother trying to short because it's just too risky and less predictable. This applies to every pattern and/or strategy mentioned in this eBook.

So we've gone over patterns and strategies for shorting penny stock pumps, but I bet you're asking yourself, "How do I find these stocks?" Read on to the next page my friend.

### Chapter 4 – Suit Up For Short Selling

Trading without the needed tools for your success is reckless, risky, and puts your whole account in danger. It's kind of like trying to build a house without a hammer. I trade with confidence when I'm using the latest market tools and the right brokerage. I cannot stress how important this is when short selling penny stocks.

#### The Best Ways to Find These Stocks

Knowing the patterns to short is one thing but *finding* stocks that display the patterns is another. I remember when I first started trading I would hop from one message board to another looking for stock picks. Sure it's very helpful and I recommend you start at [PennyStocker](#) and [TimothySykes](#) but I kept wondering if maybe there are more picks out there that some don't pick up on or weren't aware of. That's when I took it upon myself to do my OWN scanning so I would put the worry away that maybe I missed a stock that wasn't mentioned on my favorite message boards.

There are tons of free scanners out there that are very helpful in finding highest % gainers (which is what you want to look for when shorting). One of the best ones is the [ClearStation Scanner](#).

If you want more options and customization with your scans I use and recommend [StockFetcher](#). This is how I find the majority of my stocks that I will potentially short. With StockFetcher you can set your own parameters for your scan that tells the scanner exactly what to look for. I'm going to make it easy for you and give you my scan that I use to find stocks that fit the PUMP pattern that I short:

*show stocks where close gained more than 50 percent over the last 3 days and price is between 1 and 15 and volume is greater than 100,000*

And of course you can adjust the #'s to anything that you would like. I usually change the numbers of days and price to different #'s whenever when I do a scan.

I am not in anyway affiliated with StockFetcher, I just love the customization of parameters that you can integrate into your scan. To me, it's the best \$8.99 a month you can spend. I can't tell you how much time it saves me when it comes to finding stocks to short. On top of that, I know the scan is going to pick up every stock that I want, therefore I never am missing opportunities that I didn't already know about!

Just to make sure you're equipped with every stock that's ripe for shorting I highly recommend you visit:

[PennyStocker.com](#) – Updated every few hours with the latest and greatest of stocks to potentially short.

[Timothysykes.com](#) – This guy is absolutely incredible when it comes to short selling penny stocks. He has turned \$12,000 into \$45,000 (with each trade documented and certified) in a little over a year short selling penny stocks. He has DVD's that define his strategies and his exact thinking when it comes to short selling penny stocks. They're a must have for any pennystocker!

[Darksidetrading.blogspot.com](#) – Muddy is the man on the short side of penny stocks. His blog holds valuable information that can help and inspire anyone who short sells penny stocks. You can catch him making real intraday trades on his Chatroom at [InvestorsUnderground](#).

### My Recommended Brokerages

**SOGOTRADE:** This is the brokerage I use when it comes to short selling penny stocks. You receive 25 free trades whenever you sign up, and from that point on it's just \$3 a trade! BUT what I really love about [SogoTrade](#) is that they have an extensive easy-to-borrow list. Once you get involved, or are involved in short selling penny stocks you will run into times when your brokerage doesn't have shares available to borrow to short in a certain stock. Well, with [SogoTrade](#) I rarely run into any problem of this kind because they're a self-clearing brokerage meaning they don't have other brokerages to compete with when trying to find shares to short. Believe me, there's nothing worse than watch a stock on your watch list plummet only to be sitting on the sidelines watching because you couldn't find shares to short. It's very easy to open an account, for me it only took 4 days. I'm loving it here!

**SPEEDTRADER:** Another brokerage that I highly recommend and am affiliated with. They specialize in short selling penny stocks and have a great platform to trade from! Commissions here are a little higher at around \$7-8 but what many don't realized is that you can bargain with them. Consider asking them to lower your commission because you're a poor penny stock trader. Chances are they will do it!

**Thinkorswim:** Their customer service is absolutely amazing and they offer a great platform to trade from. Although their platform is geared more towards an options trader many short sell penny stocks with it. They do have steep commissions in \$10 which doesn't help the cause. Another downfall with Thinkorswim is that a lot of times it's very hard to find shares to short of your chosen stock mostly because they're not self-clearing so they compete for shares to short with other brokerages. This diminishes your chances of getting your highly prized shares.

### Chapter 5 – My Top Ten Shorting Rules

It's very important for every trader to have rules to follow whenever trading penny stocks. Without rules you're destined to lose money. It's said that 90% of traders lose money, and it's quite possibly the fact that those traders don't have simple rules to follow that can insure profitability. So without further adieu here are my top 10 rules for shorting penny stocks.

#### Risk & Reward

If you have found the perfect pattern of a pumped-up penny stock ready to tank back down to where it came from, it's essential that you consider the risk & reward of that certain stock before taking a short position in it. To find out the risk your taking and the possible reward you need to know the support and resistance prices of your selected stock on a 5 min chart. Once you find the resistance and support you should consider if a potential trade goes wrong, where is the next resistance point aka this is what your risking. Then consider if your potential trade goes perfect as planned, where's the next support line? If there is more % or \$\$ to the resistance than the support then the odds are not in your favor and you should look elsewhere. BUT is there is more % or \$\$ to the next support odds are then in your favor and you should go along with the trade. That is the basis behind risk and reward that can help your decision to short a specific stock.

### **Juiced**

Juiced is the word I made up for the term “short squeeze”. A short squeeze is a short sellers worst nightmare when trading penny stocks. This is when a stock is highly shorted then all the sudden the price starts going drastically higher and higher causing all the traders who shorted to cover their positions quickly causing the price to drive up even more in the process. This happens time and time again down in penny stock land and it's up to you to prevent it from happening. There's really nothing you can do but to just be aware of a short squeeze when you enter a short position in a stock. Whatever you do don't get juiced!

### **Cut Losses**

I can't stress this enough! Whenever a stock goes against you, in our case (goes up) instead of going down it's in your best interest to cut your losses quick! If you do not cut your losses quick you will be vulnerable to getting juiced. I've seen it time and time again where traders let there emotions get in the way and wind up losing tons and tons of money because they refuse to think that they were wrong, or refuse to take their loss thinking that it will in fact come back down and they'll get their money back. To avoid all of this it's best to just cut your losses quick and move on when the trend goes against you.

### **Little Gains Add Up**

Too many times there are traders who feel that they need to make as much as possible whenever possible. Sure everyone would love to do that, but it just isn't the way to go about trading. When greed gets into the way you can actually have a winning trade become a losing one just because of greediness. Whenever you're up in a position take the profit and move on. Little gains do add up, I promise!

### **Don't Force Trade**

But PennyStocker I haven't traded all week! I don't care if there's nothing that looks good then simply don't trade! Let the trades come to you and you'll be better off. I've gone as long as 3 weeks without making a trade simply because I didn't want to risk losing money on a pattern that I wasn't comfortable with.

### **Afternoon Fades**

If you've got your eye of the perfect pumped/hyped penny stock and you're waiting for confirmation for a collapse based on the 5 min chart your odds are increased tremendously if this collapse happens in the afternoon. If your stock confirms its collapse in the morning and then subsequently does collapse there's a good possibility of a short squeeze and you possibly getting stuck in the middle of it. A lot of times the collapses happen right when the market opens and doesn't give that chance for the afternoon fade and that is O.K. Sometimes you have to trade what the market gives you and when the opportunity presents itself but if this happens in the morning be aware of the short squeeze. Understand that if you do see an afternoon collapse that it's a more reliable pattern therefore I'd put more money into your trade than if it was a morning collapse.

### **Patience**

Patience is key when short selling penny stocks. Don't expect huge drops anytime you enter a short position, especially if you enter them on an afternoon fade. They are called afternoon fades for a reason! They fade down, not tank down! Also be patient when there are just not any patterns out there looking like short opportunities. Like I said before, don't force trade! Have patience!

### Confirmation

It is essential that whenever it looks like a penny stock is about to fall that you wait for confirmation. This means that you should wait for the stock to fall below a support line on a 5-min chart. You can either short right when it breaks support or wait 10 minutes after it breaks support so you see for sure if it's a fakeout or not. Personally I like waiting after it initially breaks support because I can get a better idea of where the trend is going and avoid getting faked out. Another tip is to wait for the ask price to go below the exact price of the support line price.

### Key Levels

The key levels are the support and resistance prices on a 5-min chart. Plan your trades and trade your plan based off of these levels. Don't blindly enter a short position without it breaking support. You're putting unneeded risk on your account.

### Plan Your Trade

Using Risk & Reward, Key Levels, and Confirmation you can plan your trade. It's very important to trade according to your plan! Just like a builder has a plan to building a home, a trader needs a plan whenever trading. Don't get greedy or let your emotions overtake your original plan. Plan when you're going to cut losses and take profits. Plan your trade, trade your plan.

### Thank You

Thanks for taking the time to read **The Ultimate Guide: Short Selling Penny Stocks**. I encourage you to share this E book! You can make free copies of it and send it to any family, friends, co-workers, or anyone else that would benefit from the advice given in this E book! If you have a website, blog, or forum feel free to feature this E book to your visitors! It can be a great addition to any stock market blog out there! Just make sure not to alter the content in any way.

I hope you are now inspired, encouraged, and educated by the contents of my eBook. If you have any questions, comments, etc feel free to [Contact](#) me at any time!